



November 22, 2013
 Company Report
 Rating: BUY
 TP: HK\$ 3.10

Share price (HK\$) 2.42
 Est. share price return 28.1%
 Est. dividend yield -
 Est. total return 28.1%

Previous Rating & TP HK\$2.80, BUY
 Previous Report Date June 6, 2013

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Key Data

52Wk H/L(HK\$)	2.87/1.5
Issued shares (mn)	4,906
Market cap	11,826
3-mth avg daily turnover (HK\$ mn)	30.2
Major shareholder(s) (%): Kwok's Family	62.4

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Property development	97.1
Property investment	1.4
Property management	1.1
Others	0.4

Source(s): Company, ABCI Securities

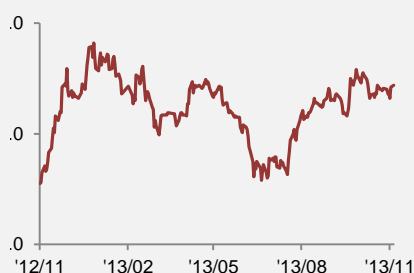
Share performance (%)

	Absolute	Relative*
1-mth	(5.1)	(6.4)
3-mth	9.6	1.1
6-mth	0.0	(1.2)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Kaisa (1638 HK)

Residential top pick with robust sales and margins

- Kaisa City Plaza ranked no.1 in housing GFA sold in Shenzhen for 10M13, while Yuefeng Garden achieved RMB 516mn (or 222 units) in first-day sale
- Kaisa's redevelopment pipeline offer cheap ways of land acquisition. Existing landbank of 24.8mn sqm is also more than sufficient for five years of development
- Raised earnings forecasts by 2.3%-23.0% for FY13E-15E on higher-than-expected 2H13 completion
- Maintain **BUY** with revised TP of HK\$ 3.10, based on a 50% discount to our end-2014E NAV

Good progress in urban redevelopment. Given Kaisa's solid experience in urban redevelopment, the Group has recently secured two new redevelopment projects (with MOUs signed) in Longhua district in Shenzhen, where Kaisa has no prior exposure to. Kaisa's Shenzhen projects currently for sale achieved encouraging results. Kaisa City Plaza ranked No.1 in residential GFA sold in Shenzhen for 10M13; while the recently launched Yuefeng Garden (佳兆业悦峰) achieved RMB 516mn in presale (222 units) during its initial launch on Oct 31 with an estimated ASP of RMB 25,000/sqm. As contribution from redevelopment project increases, we expect Kaisa's higher-than-peer gross margin (for 1H13) will rise further from 34.6% in FY13E to 35.5% in FY14E and 36.1% in FY15E, respectively.

Sufficient landbank to support sales growth. As at June 2013, Kaisa has a landbank of 24.8mn sqm, which is sufficient for development in the next five years. Kaisa is in no urgency to aggregate land in 2H13—especially given the overheating land market at present. Moreover, its redevelopment pipeline allows a cheaper way of landbanking.

Top pick in residential sector. As we factor in the new project acquired in 10M13 and the better-than-expected 2H13 completion guidance, we raise our FY13E/14E/15E core profit forecasts in by 9.9%/2.3%/23.0%, respectively. We also roll over our valuation to end-FY14E and raise our TP to HK\$ 3.10 (from HK\$2.80 previously). Our TP is based on a 50% discount (from previous 45%) to end-2014E NAV (HK\$5.62/share) and is comparable to average NAV discount during the tightening period in 2011-12. Given the strong presales and positive margin outlook, Kaisa is our top residential pick. Maintain **BUY**.

Risk factors : 1) Timing of redevelopment project approvals are uncertain; 2) No dividend record since listing.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	10,835	11,955	20,089	25,544	32,957
Chg (% YoY)	39.7	10.3	68.0	27.2	29.0
Core Net Income (RMB mn) ¹	1,576	1,504	2,420	3,430	4,925
Chg (% YoY)	11.9	(4.6)	60.9	41.7	43.6
Underlying EPS (RMB)	0.28	0.27	0.44	0.62	0.89
Chg (% YoY)	(0.7)	(4.2)	60.9	41.7	43.6
BVPS (RMB)	2.2	2.6	3.0	3.7	4.5
Chg (% YoY)	6.1	20.7	16.9	20.5	24.4
Underlying PE (x)	6.7	7.0	4.4	3.1	2.1
P/B (x)	0.9	0.7	0.6	0.5	0.4
ROE (%)	13.2	10.5	14.4	17.0	19.6
ROA (%)	3.8	2.6	3.8	4.6	5.8
DPS(RMB)	-	-	-	-	-
Yield (%)	-	-	-	-	-
Net gearing (%) ²	76.7	70.1	90.5	23.2	(48.0)

¹Core net income = Net profit - revaluation gain of investment properties and one-off items

²Net gearing = Net debt / Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates

Replicating redevelopment success in Zhuhai

Given its solid experience in urban redevelopment, Kaisa recently secured two new redevelopment projects (with MOUs signed) in Longhua district of Shenzhen where Kaisa has no prior exposure to. Kaisa's Shenzhen projects for sale have achieved encouraging results. The Kaisa City Plaza ranked No.1 in Shenzhen for residential GFA sold in 10M13. The recently launched Yuefeng Garden (佳兆业悦峰) also achieved RMB 516mn in presale (222 units) on its initial launch on Oct 31 with an estimated ASP of RMB 25,000/sqm.

Exhibit 1: Kaisa's Shenzhen Yuefeng Garden


Source(s): Soufun, ABCI Securities

Exhibit 2 : Kaisa's Shenzhen Yuefeng Garden


Source(s): Soufun, ABCI Securities

In Sep 2013, Kaisa launched its first redevelopment project outside Shenzhen, the Lake View Waldorf Garden (佳兆业水岸华都) in Zhuhai. We expect this project to achieve a gross margin of 45%, slightly less than the 50% usually expected from Kaisa's redevelopment project in Shenzhen because of the lower ASP for the non-Shenzhen redevelopment project (ASP of Lake View Waldorf Garden: RMB18k/sqm vs. ASP of Shenzhen redevelopment projects: RMB20-25k/sqm).

Exhibit 3: Kaisa's Lake View Waldorf Garden

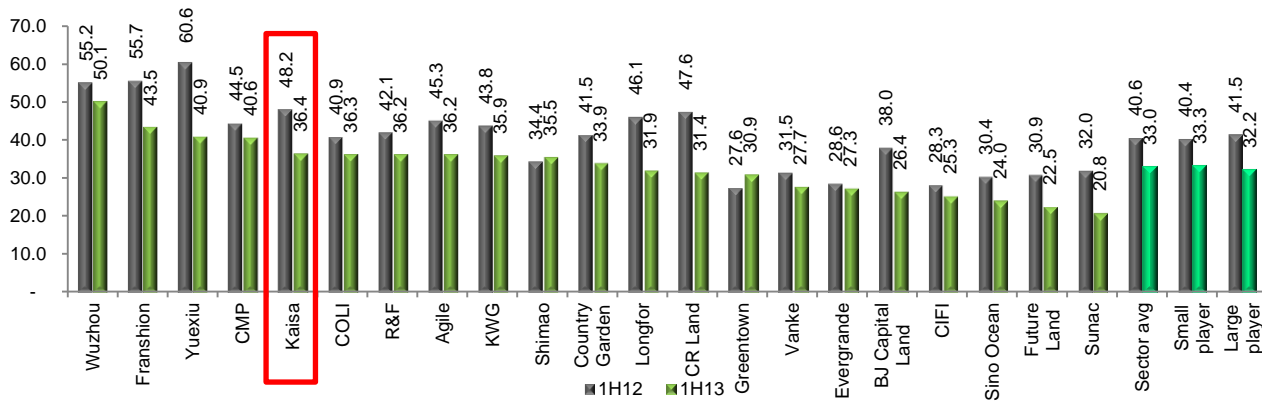

Source(s): Soufun, ABCI Securities

Exhibit 4 : Kaisa's Lake View Waldorf Garden

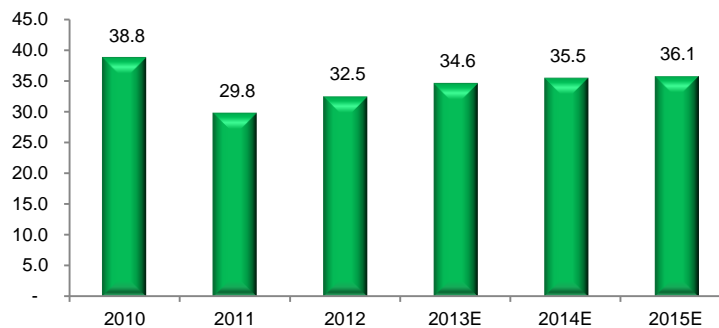

Source(s): Soufun, ABCI Securities

As contribution from redevelopment projects increases, we expect Kaisa's gross margin will rise further from 34.6% in FY13E to 35.5% in FY14E, and 36.1% in FY15E. In fact, Kaisa's overall gross margin is one of the highest among peers. Growing margin will clearly differentiate Kaisa from small/mid

cap players that often demonstrate fast-growing presale at the expense of shrinking margins.

Exhibit 5: 1H13 gross margin comparison


Source(s): Company, ABCI Securities

Exhibit 6: Kaisa's gross margins (%)


Source(s): Company, ABCI Securities Estimates

Sufficient landbank for fast sales growth

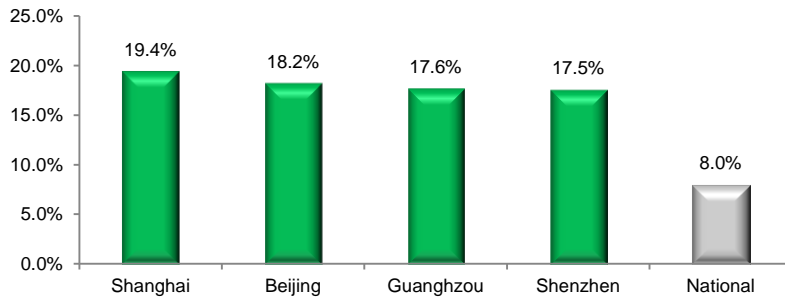
Apart from Shenzhen, Kaisa has also increased its exposure in first tier cities in 1H13 by acquiring two sites in Guangzhou and two others in Shanghai. The aggregate land capex was RMB 4,698mn (54% of 1H13 land capex). We believe increasing exposure in top tier cities will enhance both ASP and margins, as new home prices in these cities grew faster than the national average price for 10M13.

As at June 2013, Kaisa has a landbank of 24.8mn sqm, which is sufficient for development in the next five years. Its redevelopment pipeline also offers a cheaper way of landbanking. Thus, Kaisa is in no urgency to acquire land aggressively for replenishment in 2H13.

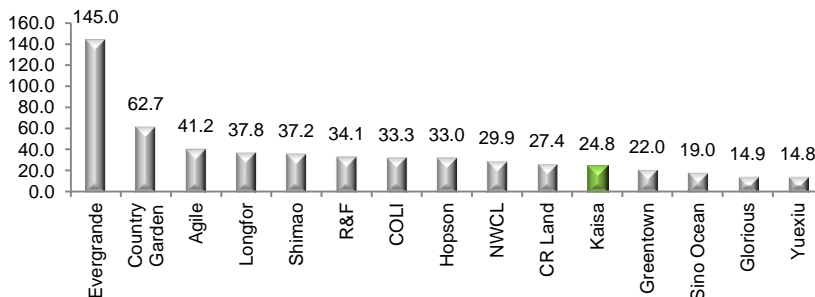
Exhibit 7: Kaisa's land acquisition in 1H13

Date	Location	Stake (%)	No of sites	Attributable GFA ('000 sqm)	Land cost (RMB/sqm)	Consideration (RMB mn)	Type
Feb-13	Hangzhou	100%	1	73.2	6,367	466	Residential
Feb-13	Qingdao	100%	3	273.4	1,356	371	Residential
Feb-13	Nanchong	100%	1	156.3	1,956	306	Residential
Mar-13	Dongguan	100%	1	84.8	5,309	450	Residential
Apr-13	Chengdu	100%	1	143.5	3,550	510	Residential
Apr-13	Wuhan	100%	1	116.3	3,774	439	Residential
May-13	Guangzhou	100%	1	73.0	25,597	1,868	Residential
May-13	Shenzhen	11.5%	1	16.3	24,837	405	Commercial
May-13	Shanghai	100%	1	49.9	30,163	1,505	Commercial
May-13	Hangzhou	100%	1	142.9	7,068	1,010	Residential
May-13	Guangzhou	100%	1	35.5	22,512	799	Residential
Jun-13	Shanghai	100%	1	82.7	6,355	526	Residential
Total			14	1,247.8	6,935	8,653	

Source(s): Company, ABCI Securities

Exhibit 8: Changes in new home property price in tier 1 cities (Sep 2013 vs Dec 2012) (%)


Source(s): NBS, ABCI Securities

Exhibit 9: Landbank comparison among the listed Chinese developers (mn sqm)


Note: landbank as at Jun 2013

Source(s): Companies, ABCI Securities

Raise earnings and TP; Top pick in residential sector

Kaisa delivered a GFA of 1.0 mn sqm and achieved a core profit of RMB 1,093m (+195% YoY) in 1H13. With the management guiding that completion target in 2H13 would reach 2.47mn sqm, our previous full-year delivery estimate of 2.7 mn sqm now appears overly conservative. As a result, we raise our delivery estimate by 5.2% to 2.88mn sqm and 2013E core profit by 9.7% to RMB 2,416mn.

As we factor in new sites acquired in 10M13 and better-than-expected 2H13 completion, we raise our core profit forecasts in FY13E/14E/15E by 9.9%/2.3%/23.0%, respectively.

We also roll over our NAV estimate to end-2014 and raise our TP to HK\$ 3.10 (from HK\$ 2.80 previously). Our TP is based on a 50% discount (from the previous 45%) to 2014E NAV (HK\$5.62), which is comparable to the counter's trading at a similar historical average discount in 2011/12 when tightening measures were in place. Kaisa is currently trading at 3.0x 2014E P/E, representing a 61% discount to FY14E NAV. Given its strong presale and margin outlooks, Kaisa is our top pick for the China residential property sector. Maintain **BUY**.

We currently assume Kaisa to maintain its 0% dividend policy for the next few years, as the Group is still at the expansion stage where heavy land capex is required. However, we believe it is possible that it will start distributing dividends as soon as its total land reserves reach a level where aggressive landbanking becomes unnecessary.

Exhibit 10: Changes in major forecasts for Kaisa

	Previous			Current			Change (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Core net profit (RMB mn)	2,203	3,351	4,003	2,420	3,430	4,925	9.9%	2.3%	23.0%
YoY chg (%)	46.5	52.1	19.4	60.9	41.7	43.6			
Contracted sales (RMB mn)	23,812	25,773	26,431	23,866	32,434	38,807	0.2%	25.8%	46.8%
YoY chg (%)	37.3	8.2	2.6	37.6	35.9	19.6			
GFA delivery (mn sqm)	2.73	3.39	3.46	2.88	3.36	3.85	5.2%	(1.0%)	11.1%
Gross margin (%)	34.1%	35.2%	38.3%	34.6%	35.5%	36.1%	1.4ppt	0.8ppt	(5.7ppt)

Source(s): ABCI Securities estimates

Exhibit 11: Kaisa's FY14E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Shenzhen	1.1	4,133	13%		3,601
Dongguan	1.1	1,224	4%		1,155
Huizhou	5.2	5,320	17%		1,021
Anshan	2.4	1,469	5%		622
Yingkou	2.0	1,216	4%	DCF at	621
Changsha	1.5	1,168	4%	WACC of	801
Huludao	1.7	1,080	3%	14.9%	621
Guangzhou	0.1	1,630	5%		12,379
Hangzhou	0.6	2,684	8%		4,767
Others	8.1	10,143	32%		1,257
Subtotal	23.0	30,068	95%		1,307
Investment Properties		1,526	5%	6.0% cap rate on 2013E net rental income	
Total 2014E GAV		31,594	100%		
2014E Net debt		(4,685)	(15%)		
Total 2014E NAV		26,909	85%		
No. of share outstanding (diluted)		5,526			
NAV per share (RMB)		4.87			
Ex rate		1.27			
NAV per share (HK\$)		6.17			
Target discount (%)		50%			
Target Price (HK\$)		3.10			
WACC	14.9%				
Cost of debt	11.0%				
Cost of Equity	20.0%				
Debt/ (Debt + Equity)	43%				

Source(s): Company, ABCI Securities estimates



Exhibit 12: Kaisa's 1H13 results

P&L	1H13	1H12	YoY Chg (%)
	RMB mn	RMB mn	(%)
Turnover	7,016	2,300	205.0
Cost of Sales & direct operating costs	(4,461)	(1,192)	274.3
Gross Profit	2,555	1,109	130.5
Gross Margin (%)	36.4	48.2	(11.8)
Selling and distribution costs	(357)	(232)	53.7
Administrative expense	(406)	(283)	43.7
EBIT	1,793	594	201.9
EBIT Margin (%)	25.6	25.8	
Other income, gains and losses	2	17	(88.5)
Fair value gain of investment properties	364	424	(14.1)
Other exceptional items	(361)	4	na
Share of profit from JCE/ Associates	0	(0)	(100.0)
Finance cost	(33)	(25)	34.6
Profit before tax	1,764	1,014	74.0
Tax	(760)	(341)	123.1
- LAT	(17)	(32)	(47.3)
- Enterprise tax	(743)	(308)	140.9
Profit after tax	1,004	674	49.1
Minority Interest	20	1	1,607.4
Net profit	1,025	675	51.8
Underlying net profit	1,093	370	195.1
Operating statistics			
Contracted GFA (mn sqm)	1.19	1.10	8.3
Contracted ASP (RMB/sqm)	9,253	5,871	57.6
Contracted Sales (RMB mn)	11,022	6,459	70.7
GFA Delivered (mn sqm)	1.00	0.28	251.9
Booked ASP (RMB/sqm)	6,854	7,605	(9.9)
Property sales booked (RMB/sqm)	6,834	2,155	217.1
Balance sheet			
	Jun-13	Dec-12	HoH %
	RMB mn	RMB mn	
Gross debt	19,600	15,408	27.2
Cash	6,175	5,352	15.4
Net debt	13,425	10,055	33.5
Net gearing (%)	87.0	70.1	17.0

Source(s): Company, ABCI Securities



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	10,835	11,955	20,089	25,544	32,957
Cost of sales	(7,601)	(8,070)	(13,130)	(16,475)	(21,065)
Gross Profit	3,234	3,885	6,959	9,069	11,892
SG&A expenses	(970)	(1,397)	(1,746)	(2,070)	(2,313)
EBIT	2,264	2,489	5,213	6,999	9,579
Finance cost	(69)	(39)	(40)	(33)	(29)
Share of profit of associates	(1)	(0)	0	0	0
Other income/ (expenses)	198	62	28	55	191
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	433	757	0	0	0
Profit before tax	2,825	3,269	5,201	7,021	9,741
Tax	(926)	(1,153)	(2,406)	(3,249)	(4,387)
Profit after tax	1,899	2,116	2,795	3,772	5,354
Minority interest	2	(44)	(374)	(342)	(429)
Reported net profit	1,901	2,072	2,420	3,430	4,925
Less: exceptional items	(325)	(568)	0	0	0
Underlying net profit	1,576	1,504	2,420	3,430	4,925
Per share					
Underlying EPS (RMB)	0.28	0.27	0.44	0.62	0.89
DPS (RMB)	-	-	-	-	-
Payout ratio (%)	0%	0%	0%	0%	0%
BVPS (RMB)	2.15	2.60	3.03	3.66	4.55
Growth %					
Revenue	39.7%	10.3%	68.0%	27.2%	29.0%
Gross Profit	7.4%	20.2%	79.1%	30.3%	31.1%
EBIT	-6.3%	9.9%	109.4%	34.3%	36.9%
Underlying net profit	11.9%	-4.6%	60.9%	41.7%	43.6%
Margin %					
Gross margin	29.8%	32.5%	34.6%	35.5%	36.1%
Gross margin (post-LAT)	28.0%	31.6%	27.8%	28.1%	28.5%
EBIT margin	20.9%	20.8%	25.9%	27.4%	29.1%
Core net margin	14.5%	13.0%	13.9%	14.8%	16.2%
Key assumptions					
Presales (RMB mn)	15,289	17,341	23,866	32,434	38,807
GFA sold (m sqm)	2.18	2.58	3.31	3.86	4.22
ASP (RMB/sqm)	7,022	6,730	7,221	8,404	9,187
Booked Sales (RMB)	10,576	11,598	19,762	25,187	32,578
GFA delivered (m sqm)	1.18	1.65	2.88	3.36	3.85
Booked ASP (RMB/sqm)	8,977	7,037	6,871	7,501	8,461
Land acquisition (RMB mn)	5,950	4,520	10,089	-	-
GFA acquired (m sqm)	4.9	2.4	2.0	-	-
Land cost (RMB/sqm)	1,209	1,858	4,938	-	-
Land acquisition to Contracted sales (%)	38.9%	26.1%	42.3%	-	-
Land bank GFA (m sqm)	23.7	23.9	23.1	19.7	15.9

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	34,756	49,836	55,763	64,918	74,967
Cash	3,945	4,683	(437)	10,053	26,787
Restricted cash	541	670	670	670	670
Trade & other receivables	3,697	5,843	5,843	5,843	5,843
Property under development	23,502	34,840	45,887	44,552	37,867
Other current assets	3,070	3,801	3,801	3,801	3,801
Non-current assets	6,949	8,117	8,645	9,173	9,701
Property, plant & equipment	149	308	336	364	392
Investment properties	6,375	7,540	8,040	8,540	9,040
Investment in Associate and JCE	299	0	0	0	0
Other non-current assets	126	269	269	269	269
Total Assets	41,705	57,953	64,408	74,091	84,668
Current Liabilities	17,099	29,439	33,149	39,111	44,384
Short term borrowings	2,067	3,150	3,150	3,150	3,150
Trade & other payables	6,797	7,112	7,112	7,112	7,112
Pre-sales deposits	7,242	17,244	20,954	26,916	32,189
Other current assets	993	1,933	1,933	1,933	1,933
Non-current liabilities	12,657	13,460	13,460	13,460	13,460
Long term borrowings	11,577	12,257	12,257	12,257	12,257
Other payables	0	0	0	0	0
Other non-current assets	1,079	1,202	1,202	1,202	1,202
Total Liabilities	29,755	42,898	46,609	52,570	57,843
Net Assets	11,949	15,054	17,799	21,521	26,825
Shareholders' Equity	11,942	14,350	16,771	20,200	25,125
Minority Interest	8	704	1,028	1,321	1,699
Total Equity	11,949	15,054	17,799	21,521	26,825
Key ratio					
Gross debt (RMB mn)	13,644	15,408	15,408	15,408	15,408
Net debt (RMB mn)	9,158	10,055	15,175	4,685	(12,049)
Net gearing (%)	77%	70%	90%	23%	-48%
Contracted sales/ Total assets (x)	0.37	0.30	0.37	0.44	0.46

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	2,294	2,531	5,254	7,041	9,621
Change in Working Capital	(4,505)	(882)	(5,681)	8,650	13,162
Tax payment	(743)	(906)	(2,406)	(3,249)	(4,387)
Operating Cash flow	(2,954)	743	(2,833)	12,442	18,396
Purchase of PP&E	(70)	(73)	(70)	(70)	(70)
Addition of Investment Properties	(473)	(531)	(500)	(500)	(500)
Others	(1,464)	(553)	28	55	191
Investing Cash flow	(2,007)	(1,157)	(542)	(515)	(379)
Debt raised	9,345	5,216	5,000	5,000	5,000
Debt repaid	(3,634)	(3,533)	(5,000)	(5,000)	(5,000)
Interest expenses	(1,096)	(1,468)	(1,695)	(1,387)	(1,233)
Equity raised	(2,007)	(1,157)	(542)	(515)	(379)
Dividend to shareholders	-	-	-	-	-
Others	1,959	2,094	492	465	329
Financing Cash flow	4,567	1,151	(1,745)	(1,437)	(1,283)
Net cash inflow/ (outflow)	(394)	737	(5,120)	10,490	16,734
Cash- beginning	4,340	3,945	4,683	(437)	10,053
Cash- year-end	3,945	4,682	(437)	10,053	26,787

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return – 6% \leq Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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